

# A Study of the Geo-economics of Afghanistan with it's Central and South Asian Neighbours

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## Abstract

*The countries of South Central Asian have interdependent economies and need cooperation and access to each other's natural resources to accelerate economic growth. Afghanistan has implemented multibillion dollar projects in cross-border energy, connectivity and infrastructure projects while gaining prominence as transit route between energy rich Central Asian and energy poor South Asia. Multilateral power sector projects which include the Central Asia-South Asia (CASA-1000) power project, the Turkmenistan, Uzbekistan, Tajikistan, Afghanistan and Pakistan (TUTAP) electric power project and the Turkmenistan, Afghanistan and Pakistan (TAP) power project aim to resolve Afghanistan's energy crisis. Transnational economic corridors of Lapis Lazuli and the Belt and Road Initiative (BRI) will provide the connectivity Afghanistan needs to enter international trade markets. Access to the Indian Ocean via the Chabahar port will help grow Afghanistan's economy exponentially and the trans-country Turkmenistan, Afghanistan, Pakistan, India (TAPI) gas pipeline project will add to the Afghanistan exchequer. Under the central Asia Regional Economic cooperation (CAREC) Program, Afghanistan, by 2030 will be connected to the significant economic hubs of the region. To oversee the completion of the ongoing projects, political stability and strong governance in Afghanistan is a must. A major concern are the delays in executing projects caused by internal strife.*

**Keywords:** *Afghanistan geo-economics, Central Asia power projects, South Asia, Chabahar port, Economic corridors, TAPI*

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## Introduction

Landlocked and rich in mineral resources, Afghanistan has been a vital trans-boundary trade corridor since the days of the ancient Silk Road. In contemporary times, its geographical significance as a trade partner has increased manifold since new neighbours come into existence after dissolution of the USSR. The process of the building a functional economy began after the fall of the Taliban in 2001 which has yet to gain momentum. The subject matter of Afghanistan geo-economics holds importance as its location acts as a trade route between its central and south Asian neighbours and also because of abundant natural resources of this region on which their co-dependent economics sustain. Afghanistan has proposed Uzbekistan to tap into its mineral deposits which have a proven estimation of \$1 trillion. For any economy to grow, it needs abundant cheap energy. Afghanistan's primary need is power. The acute electricity crisis has resulted in a very low electrification rate, especially in rural provinces. Afghanistan aims to provide a resolution to this dire problem by importing power from several completed, ongoing and proposed power projects with Turkmenistan, Uzbekistan, Tajikistan and Iran besides acting as a power transit to Pakistan.

To establish greater access to the region by land and water to boost trade, Afghanistan is a part of major connectivity projects. The Lapis Lazuli corridor could connect it to Europe via Turkmenistan, Azerbaijan, Georgia and Turkey. With china already the largest foreign investor in Afghanistan, the Belt and Road Initiative (BRI) will link china to the Caucasus via Afghanistan, which will strengthen the economics ties of the two countries. The only direct entry to the Indian ocean for Afghanistan is through the Chabahar port of Iran. It is a crucial site for Afghanistan to power its trade to its complete potential. Afghanistan has complicated ties with Pakistan and the Chabahar port will drastically reduce Afghanistan's dependency on Pakistani routes. The attempts made by Afghanistan to emerge as prospering, reliable and dependable economy rests heavily on the timely and safe completion of multilateral projects on its land.

The intricateness of the geo-economy of Afghanistan with its six neighbours arises due to the interconnectedness of major multilateral power and connectivity projects upon which their individual and collective economic fate rest. The geo-economics of Afghanistan in relation to its neighbours, therefore, needs to be studied in the light of its bilateral trade with each of them.

### **Afghanistan-Turkmenistan**

#### **A) The TAPI Gas pipeline project**

A rapid growth in the bilateral economic ties between Ashgabat and Kabul have been witnessed with the commencement of multilateral energy and connectivity projects with TAPI pipeline being the crown jewel which will have major impact on Afghanistan's economy. The 1814km pipeline, also known as peace pipeline originating in Turkmenistan will transverse through the countries of Afghanistan, Pakistan and India. It will cover a distance of 816km in Afghanistan and will pass through the province of Herat, Farah, Nimroz, Helmand and Kandahar transporting 33 billion cubic meters (bcm) of natural gas out of which Afghanistan is expected to receive 5.11 bcm of gas from the first 10 years which will increase to 1 bcm in the next 10 years and 1.5 bcm of gas in the third 10 years after the completion of the project. Constant delays in the land acquisition process in Afghanistan is creating a hurdle in the completion of the project.

#### **B) The TUTAP power project**

The \$662 million 500kv TUTAP electric power project which is expected to be completed between 2025-2030 aims to connect Afghanistan's currently islanded electrical grids and provide linkages that would facilitate the export of excess electricity from Turkmenistan to Afghanistan, which in turn will transit it to Pakistan. This project will connect south and central Asia via Afghanistan which would tremendously increase urban and rural access to electricity in Afghanistan.

#### **C) The TAP Power interconnection project**

Under the TAP power project, a 500kv transmission line, upon completion will export 4000 megawatts of Turkmenistan energy to western and southern Afghanistan and on to Quetta, Pakistan. The first phase of the project is expected to be completed in 2021 and will use the existing infrastructure of the TUTAP power interconnection project. The second phase, expected to be completed by 2022, will transfer power from Turkmenistan to Herat, Kandahar and Spin Boldak in (Afghanistan).

Afghanistan stands to benefit not only from an added power source, reducing its power shortages, but also from the transit of power through its territory. Kabul expect to earn \$50 million fees once TAP is up and functional. The 700 km line essentially replicates the route of the TAPI gas pipeline. Despite the Afghan governments sincere efforts to expedite the completion of the project, it is facing massive hurdles due to insurgency and causing inordinate delays. This project, along with the more popular TAPI and CASA power projects, will tie the region closer together, reaping financials, socio-economic, political and security benefits for the people of the three countries, in particular and the region, in general. The power transmission line will aid Afghanistan and Pakistan to alleviate these power supply deficits and is an important step in the development of a national electricity grid in Afghanistan.

#### **D) Lapis Lazuli Corridor**

Regarding connectivity, in 2018, Afghanistan opened a new international trade route Lapis Lazuli. The initiative will serve to reinforce the Afghan governments commitment to infrastructure and connectivity development. The estimate \$2 billion project funded by the Asian Development Bank begins from Torghundi in western Herat province of Afghanistan and ends at the cities of Kars and Istanbul, Turkey. The trade and transport corridor includes stretchers of road, rail and maritime route and runs from Afghanistan to Turkmenistan, Azerbaijan and Georgia before crossing the Black sea to Turkey and eventually Europe. The corridor has the potential to transform trade and transit dynamics in the region that would open up opportunities for development and mutual cooperation as it aims to lower border barriers, reduce transaction costs and improve cross-border governance through harmonization. The economic corridor will function under the transport International Router (TIR) Carnet.

The 635km long Turkmenistan, Afghanistan and Tajikistan railway corridor, known as TAT railway, from the initials of the countries involved, falls under the Lapis Lazuli transit route project. It aims to create an easy route

from Afghanistan's Aqina port in Faryab province to Turkmenistan's Ymamnazar and Kerki. The new trade corridor supports the economic integration of three countries involved. The new trade corridor could increase the supply of nuts and fruits, marble, Lapis Lazuli, as well as other precious and semi-precious stones for which Afghanistan is known, to international markets.

### **Afghanistan-Uzbekistan**

Uzbekistan is one of the former Soviet state that borders Afghanistan along with Turkmenistan and Tajikistan. The vast energy resource of oil and natural gas of these countries make them an important region for energy markets. Uzbekistan and Afghanistan have taken significant steps to increase trade and cooperation with each other. Apart from the TUTAP energy project that will link Afghanistan to Uzbekistan doubling its electricity coverage, both countries in 2019, signed an agreement in which Uzbekistan will export more than 600 megawatts of electricity to Afghanistan at reduced costs for the next twenty years which will help Afghanistan save \$600 million in electricity costs. The duration of the export is a noteworthy development as Afghanistan has been purchasing electricity from Uzbekistan since 2002 on one year contracts. The Surkhan-Pul-e-khumri power transmission project (from Uzbekistan's Surkhan to Afghanistan's Pul-e-khumri), will transmit up to 1000 megawatts of electricity from Uzbekistan to Afghanistan. The completion of the power project will bring light to people in ten provinces of the country. It will inject 1000 megawatts electricity into the afghan power grid and may become part of the CASA1000 power project. Tashkent aims to position itself as a major export transit for Afghanistan via rail and airways between Afghanistan and Kazakhstan as 78% of the total imports of Afghanistan account for products from Kazakhstan. Uzbekistan also negotiating to set up a joint assembly for its car manufacturer UzAuto to reduce projection costs.

### **Afghanistan-Tajikistan**

Tajikistan is committed to develop and strengthen its economic ties with Afghanistan after the end of Taliban regime. Facing severe energy crisis, Afghanistan will benefit from importing power from Tajikistan via major multilateral power projects, namely CASA 1000 and TUTAP. Under CASA 1000, Tajikistan will export 300 Megawatts of its surplus hydroelectricity power during the summer months when it has extra capacity. The power transmission under TUTAP are designed to deliver electricity from Turkmenistan and Tajikistan to Afghanistan by connecting pre-existing infrastructure at lower costs and help in integrating power Afghanistan receives from its neighbours.

To facilitate trade, the US funded bridge across the Panj River has been a substantial growth in economic activity between the two countries. The five Nations Railway corridor, which will directly connect Afghanistan, Tajikistan, Kyrgyzstan and China to Iran will cross 1148 km of Afghan land which is more than half of the total length of the 2100 km of the total railway line. The proposed railway line will pass through the Afghan provinces of Kunduz, Balk, Jawozjan, Faryab, Badghis and Herat. The 400 km TAT railway project which will take its root in Tajikistan will connect the Central Asian nation to Iranian seaports through Turkmenistan and Afghanistan via two routes which will stretch to Iran. Afghanistan provides transit opportunities to Tajikistan to export its goods to India, Iran and turkey's markets. All these initiatives foreshadow a significant geo-economics shifts in the near future.

### **Afghanistan-Iran**

In 2003, India, Afghanistan and Iran, under the North-South transport corridor framework, signed the Chabahar port agreement, allowing all three countries to utilize the Chabahar port of a trade hubs. The port has particular promise as a means of access to the Indian ocean for landlocked Afghanistan. The port, located off the Gulf of Oman in Iran southeastern province of Sistan-Baluchistan, a province that span both Iran and Afghanistan. It is the lifeline that Afghanistan need to reinvigorate its trade potential. India and Iran aim to complete a multimodal system that will more efficiently connected Kabul to the port and in turn, reduce reliance on Pakistan routes which have always been challenging to Afghan traders. Without Chabahar, Afghanistan must depend on Iran's other major shipping site, Bandare Abbas, which manages 70% of the country's seaborne traffic. Bandare Abbas does not have direct access to the Indian Ocean. Iran and Iran's construction of the multimodal system is in various stages of completion and overall, the routes will provide a 60% reduction in shipping costs and a 50% reduction of shipment time between India and Central Asia. Already, Afghan traders make up 165 of the 500 companies registered with the Chabahar free zone. Iran authority has promised to allow Afghanistan to us the port with low port fees and has only imposed meager tariffs on Afghanistan's goods. The current export of Afghanistan amount to about \$1 billion, with Afghan officials confident that with Chabahar, the number can increase to \$ 2 billion in the near future. The

Chabahar project could have a tremendous impact on Afghanistan's economic growth. The port would allow Afghanistan to connect new international markets for its good and create thousands of jobs in Afghanistan.

By investing in the Chabahar seaport, Afghanistan will gain multiple benefits: political, cultural, economic, maritime and geo-strategic. Also South Asian and Central Asia's companies will access many untapped markets in Afghanistan and in the both side of Asia.

### **Afghanistan-China**

China has become the biggest source of foreign direct investment in Afghanistan especially after Afghanistan's energy minerals and raw materials sector opened up in 2007. Reopening its economic ties, China has diversified its investment in copper extraction, oil and natural gas to road and rail infrastructure projects. The Aynak copper mine has the potential to give up to an annual royalty of \$400 million to Afghanistan. The state owned China National Petroleum corporation (CNPC) intend to build a new natural gas pipeline from Turkmenistan to Xinjian, cutting across Tajikistan and northern Afghanistan. Name the TACT (Turkmenistan, Afghanistan, Tajikistan and China) project, it is envisaged as an alternative to Central Asia-China pipeline that transit through Uzbekistan and Kazakhstan. China is linked to Hairatan in northern Afghanistan via Kazakhstan and Uzbekistan. By investing in railways, China is also weaving land-locked Afghanistan into an integrated economic system and opening up new trade route for goods. China intends to reach out to Southern Afghanistan via CPEC (China Pakistan Economic Corridor) for which it has pledged \$46 billion of the estimated \$210 billion spent on the BRI thus far. The CPEC is a gateway for China to Central Asian countries through Afghanistan.

The \$1 trillion BRI (Belt Road Initiative) formerly known as one Belt One Road, is the largest connectivity project in the world through which infrastructure development in Afghanistan will receive an enormous boost and stand to gain as the shortest transit route between Central and South Asia and China and the Middle East, providing access to the Arabian sea. In 2018, Afghanistan inaugurated an air cargo service with china to avoid Pakistan trade routes. Afghanistan hope the air corridor would lead to increased Afghan exports of dry and fresh fruits to Chinese markets and address a massive trade deficit. China seems to cautiously continue to promote development of trade and investment in Afghanistan until a stable condition is reached.

### **Afghanistan-Pakistan**

The Afghanistan Pakistan transit trade agreement (ATTA) was signed in 2010, to facilitate the transit of goods exported from and imported to Afghanistan which would strengthen the bilateral trade and transit relations between the two countries but it never comes into effect in the manner it was planned. Nevertheless, the two countries have joined hands for important energy project like CASA 1000, TUTAP, TAT to overcome their severe power deficiency. In all the three power projects and the TAPI gas pipeline project, Afghanistan is a transit route for Pakistan to import energy from Central Asia. For which it gains economics benefit. Ties between the two countries are complicated, bordering on hostility. Afghanistan want to reduce its dependency on Pakistan for its trade transit as Afghan traders repeatedly face harassment at the lands of Pakistani authorities. The sudden closure of border crossing points, superfluous documentation at Pakistani ports, agonies in the name of security checks and barriers on trade with India have continued to exert serious pressure on the Afghan economy. Since Afghanistan began pursuing connectivity projects, including Chabahar, it is estimated that the trade value between the two countries through the Pakistani ports and the Chaman and Torkham border crossings have fallen to \$500 million from its peak of \$2.7 billion in 2014-2015. Chabahar is considered to be a significant opportunity for India and Afghanistan to bypass Pakistan's Gwadar seaport. To half the decline of trade with its neighbour, Pakistan recently opened two trade Routes-Angor Adda crossing in South Waziristan and the Kharlchi border crossing in kurram district providing access to the Arabian Sea.

### **Conclusion**

The earnest efforts made by Afghanistan to become a dominant player in the geo-economics of the region by involving its neighbours in a positive step since regional cooperation is the most effective method that can be implemented to accomplish its needs. Multilateral energy projects with Turkmenistan, Uzbekistan and Tajikistan will help it to overcome its power deficiency while being an energy corridor to Pakistan. This arrangement has economic benefits for all the countries involved. Ambitious connectivity projects that include the Lapis Lazuli and

BRI corridors will aid Afghanistan to reach new international markets while proving to be a reliable transit route. With direct access to the Indian Ocean via Chabahar, it gains to bypass routes that were proving to be cumbersome. Trade via railway corridors is a new development for Afghanistan which it plans to utilize to its full potential. The only hurdle that Afghanistan needs to cross is that of international strife. To have lasting economic ties with its partners, Afghanistan needs to have stability that will foster an environment of peace and harmony. Overall, the prospects look bright for the country located in the heart of South-Central Asia.

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